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ABSTRACT

This article suggests that all too often college and university financial reports are meaningless. They indicate the current funds "surplus" or "deficit" that has been the typical university response when asked how the university did that year. In place of this, the university financial support should look at the total picture of the university, at a consolidated balance sheet, and at a consolidated changes in fund balances statement. The treasurer's report should show readily and distinctly whether the university ended the year with more or less tangible resources than it had at the beginning, and in what form; whether buildings, endowment, or working capital. (Author/MJM)

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"Why do we persist in financial reports emphasizing a collection of seemingly disparate pieces?"

THE UNIVERSITY TREASURER'S REPORT CAN MAKE SENSE WITHOUT ABANDONING FUND ACCOUNTING OR STEWARDSHIP

By William M. Wilkinson

"WE don't understand your financial reports. We've never understood them. Further, we don't understand financial reports of other colleges and universities either." Having come but recently from the outside world of business, I could sympathize with these expressions of frustration from several of our most interested businessmen-trustees. I didn't understand our financial reports either, and I had been writing them.

If the businessman wants to know how the American Telephone and Telegraph Company did last year, he would probably start with the earnings-per-share. Such a figure comes from a *consolidated* income and expense statement, which ties into a *consolidated* balance sheet, both of which include all of the many separate companies and financial interests of AT & T. Imagine the businessman's difficulties if AT & T were to publish its financial report in the typical college and university format: AT & T showing a stack of pancake balance sheets for a dozen or so of its operating components; AT & T presenting a multi-columnar statement of all the transactions in and out and among all their operating components; AT & T taking its "current" operating company, deciding what it wants to include as "revenues" and "expenditures" (including what it wants to "transfer" to and from all the other operating components), and then representing the result as its profit or loss for the year. Try to sell that to Wall Street, the SEC, or any intelligent investor!

By the Bottom Line—Answers

The businessman is not looking for an earnings-per-share at his alma mater. He knows there is no profit or loss in a nonprofit institution. But he is entitled to something more meaningful than the so-called current funds "surplus" or "deficit" which has been foisted on the gullible public for years as the answer to "how did the university do?" As with AT & T, the businessman should be looking at the total picture of the university, at a *consolidated* balance sheet and at a *consolidated* changes in fund balances statement. The treasurer's report should show readily and distinctly whether the university ended the year with more or less tangible resources than it had at the beginning, and in what form, whether buildings, endowment or working capital.

When our very name, *university*, means "turned into one," or "combined into one whole," why do we persist in financial reports emphasizing a collection of seemingly disparate pieces? We support elaborate accounting systems and maintain extensive historical records to prove our responsibility for every fund given to us and our accountability to each donor. But, all our paychecks come from the university and our management task is to keep the university performing its work of education, research, and community service. If we manage the funds but lose the university, we have lost all. What is the use of student aid funds, professorships, or money for sponsored research if there is no institution in which the student can be aided, the professor can better teach, or the research can adequately be pursued?

As management, we must consider the total resources we begin with; what comes in during the period under review; what can and must be spent, from whatever source, to accomplish the university's objectives; and what resources remain to carry on in the future. This is also the picture we should show the public, businessmen and others. We can account for 5,000 separate funds on our books but we must present the picture of the university if we want to be considered as an educational entity and not as a collection of 5,000 individual interests and prejudices. In

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the words of the younger generation, why don't we get it all together?

From a practical standpoint, fund accounting notwithstanding, a university must co-mingle, mix and match, and generally make the most of all its assets representing all its many funds in providing the total educational environment needed. Because a university does not sell stock and makes no profit, it necessarily depends upon funds provided before they are needed for working capital, to enable expenditures to be made before reimbursement can be received. Hence, while funds are separately accounted for, at any point in time, the accounts are replete with "due to's" and "due from's." Let us be honest; sometimes the most useful part of some obscure purpose fund is the cash availability to do what the larger purposes of the institution require while we wait for the peculiar purpose of the donor to manifest itself. We use unexpended receipts to finance unreceipted expenditures every day.

Current Funds Offer Options

How many colleges and universities have investments in their own plants? Or plant funds among their investments? How many have tucked current funds away in funds functioning as endowment or in unexpended plant for future use? How many are now drawing on some of these same funds functioning as endowment for operating cash? The amount of manipulation possible in the current funds statement is limited by little more than the imagination of college financial officers and the permissiveness of their auditors. To say that the current funds' purported "surplus" or "deficit" is indicative of the institution's financial health is to diagnose the patient's ills by no more than his thermometer reading. We need to look at the total picture.

In recent years I have been including a businessman's consolidated balance sheet, a consolidated changes in fund balances statement, and a consolidated cash flow in the text of the University of Rochester's annual financial report. (All the traditional audited statements in generally accepted fund accounting format are also presented.) In the businessman's balance sheet, common types of assets and liabilities are combined and the university's fund balances are shown as its "equity." (Exhibit A) The total picture and changes from prior year are easily determined without trying to trace through the four or five separate balance sheets of the audit report.

While the fund accountant will castigate me for adding together different kinds of funds and their assets, business accountants have been adding together assets of different degrees of usability and liquidity for years. We add together the $50,000 cost of old founders hall built in 1795 with the $10 million cost of the 1972 science tower, neither of which is worth what we show on the books! As with an individual's dollars, the university's dollars comprise many kinds, some of which have shrunk, have stretched, can be shifted from one pocket to another, can be spent, or saved. All affect not only the report of the treasurer but also the very life of the institution. The dollars reported by the treasurer represent only one kind of qualification of the university's input and output and none of the "in accordance with generally accepted accounting principles" can make it more relevant. So why not try to make it more understandable?

To show the businessman what happened between balance sheet dates, a consolidated changes in fund balances statement puts it all together. (Exhibit B) This con-

Exhibit A

"Consolidated" Balance Sheet

June 30, 1972
(in thousands)

	Total 1972	Increase (Decrease) from 1971
ASSETS		
Current:		
Cash	$ xxx	$ xxx
Temporary investments	xxx	xxx
Accounts receivable	xxx	xxx
Inventories, prepaid expenses and deferred charges	xxx	xxx
Total current	xxx	xxx
Investment:		
Notes receivable	xxx	xxx
Marketable securities	xxx	xxx
Total investment	xxx	xxx
Fixed:		
University plant	xxx	xxx
TOTAL ASSETS	$ xxx	$ xxx
LIABILITIES		
Current:		
Accounts payable and accruals	$ xxx	$ xxx
Notes payable	xxx	xxx
Current portion of long-term debt	xxx	xxx
Deferred revenues	xxx	xxx
Total current	xxx	xxx
Long-term debt (net of current portion):		
Notes payable	xxx	xxx
Contract payable	xxx	xxx
Mortgages payable	xxx	xxx
Principal of leaseholds payable	xxx	xxx
Bonds payable	xxx	xxx
Total long-term debt	xxx	xxx
TOTAL LIABILITIES	xxx	xxx
FUND BALANCES		
Current:		
Restricted	xxx	xxx
Unrestricted	xxx	xxx
Loan	xxx	xxx
Endowment and similar	xxx	xxx
Plant:		
Unexpended	xxx	xxx
Invested in University plant	xxx	xxx
TOTAL FUND BALANCES	xxx	xxx
TOTAL LIABILITIES AND FUND BALANCES	$ xxx	$ xxx

Exhibit B

"Consolidated" Changes in Fund Balances
Year Ended June 30, 1972
(in thousands)

			Total
Balances as of June 30, 1971			$ xxx
Additions:			
from Students for services			
Tuition and fees	$ xxx		
Auxiliary enterprises	xxx	$ xxx	
from Patients for services			
Hospital and clinics		xxx	
from Restricted funds			
Endowment and other investment income	xxx		
Gifts, grants and contracts	xxx	xxx	
from Unrestricted funds			
Endowment and other investment income	xxx		
Gifts	xxx		
New York State appropriations	xxx		
Organized activities and other sources	xxx	xxx	
from Investment appreciation		xxx	
Total additions			xxx
Total funds available			xxx
Deductions			
for Current expenditures			
Unrestricted	xxx		
Less: "Provisions for" (to plant)	xxx		
"Expenditures" (for plant)	xxx		
Restricted		xxx	
		xxx	
for Payments to beneficiaries		xxx	
for Interest expense		xxx	
for Renewal and replacement expenditures		xxx	
Other deductions		xxx	
Total deductions			xxx
Balances as of June 30, 1972			$ xxx

Exhibit C

Fund Balances
Year Ended June 30
(in thousands)

	1972	1971	1970	1969	1968
Current unrestricted	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx
Current restricted	xxx	xxx	xxx	xxx	xxx
Total current	xxx	xxx	xxx	xxx	xxx
Loan	xxx	xxx	xxx	xxx	xxx
Endowment and similar					
Endowment	xxx	xxx	xxx	xxx	xxx
Funds functioning as endowment:					
Restricted	xxx	xxx	xxx	xxx	xxx
Unrestricted	xxx	xxx	xxx	xxx	xxx
Annuity and life income	xxx	xxx	xxx	xxx	xxx
Total endowment and similar	xxx	xxx	xxx	xxx	xxx
Plant	xxx	xxx	xxx	xxx	xxx
Total fund balances, June 30	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx

solidated funds flow really shows how the university did, financially, during the period; whether it ended up with more funds, or "equity," or less. It includes all transactions, not just those selected to run through the current funds. As with the businessman's own statements, it takes further knowledge and effort to appreciate the quality as well as the quantity of the university's resources, and to know whether the institution is actually better or worse off financially at the end of the period. But, the dollar-valued resources are only as productive as the human resources make them, regardless of the accounting system.

The consolidated changes in fund balances statement can be supplemented with a quick history of major fund groupings to provide some appreciation of the recent years' changes within the university's "equity." (Exhibit C) Finally, elements from the consolidated balance sheet and the changes in fund balances statement might be combined to give management and the businessman a kind of consolidated cash flow. (Exhibit D)

Any attempt to portray the financial affairs of a university is inadequate at best. Why not use formats and terms

Exhibit D

Consolidated "Cash Flow"
Year Ended June 30, 1972
(in thousands)

Cash as of June 30, 1971			$ xxx
Sources:			
Net increase Long-Term Debt		$ xxx	
Net increase Current unrestricted funds			
Net deductions and transfers to over additions	$ xxx		
Transfer from Funds Functioning	xxx		
		xxx	
Net increase Loan Funds		xxx	
Net increase Endowment and similar funds			
Investment appreciation	xxx		
Net additions over deductions	xxx		
	xxx		
Net transfers	xxx		
Net increase	xxx		
Less Increase in Marketable securities	xxx		
		xxx	
Net increase Plant funds			
Unexpended	xxx		
Invested in University plant	xxx		
		xxx	
			xxx
			xxx
Application:			
Increase Temporary investments		xxx	
Increase Accounts receivable, inventories, prepaid expenses, and deferred charges		xxx	
Increase Notes receivable		xxx	
Increase University plant		xxx	
Net decrease Current liabilities		xxx	
Net decrease Current Restricted funds		xxx	
			xxx
Cash as of June 30, 1972			$ xxx

with which businessmen are more familiar? If we do, we might find these typical trustees and supporters more understanding and less suspicious. I am advocating supplementary statements which I have found to be helpful to our trustees. I am not recommending abandonment of fund accounting or the stewardship implied therein. Our audited statements in the traditional detail will continue to be published for all who care to—and can—read them.

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